2009
ANNUAL REPORT

Government National Mortgage Association

Ginnie Mae's Mission

To expand affordable housing in America
by linking global capital markets to
the nation's housing markets

SECRETARY'S MESSAGE

Ginnie Mae's vital role in the American housing finance system has never been more evident as in this past year. It stands as a reminder of the significance of the full faith and credit guaranty of the United States Government. As much of the mortgage market eroded and borrowers struggled to stay in their homes, Ginnie Mae and its mortgage-backed securities (MBS) programs provided needed stability for investors and other market participants. This enabled lenders to continue to offer affordable home financing on a large scale to moderate and low-income homebuyers at a critical time in our nation's history.

Confidence in Ginnie Mae and the stability it offers is demonstrated by the significant increase in issuance of its securities. For Fiscal Year 2009, Ginnie Mae MBS issuances were nearly double those of FY 2008 and almost five times more than the same period of FY 2007. By continuing to provide needed market liquidity, Ginnie Mae has once again made its mission a reality — a very significant reality to Americans who need to attain and sustain affordable housing — despite the uncertainty and decline in the housing market.

We commend Ginnie Mae for staying the course and supporting American households and communities year after year.


WILLIAM WATTERS HOUSE
22365
6194
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Mae

November 6, 2009

The Honorable Shaun Donovan
Secretary
U.S. Department of Housing and Urban Development
451 7th Street, SW
Washington, DC 20410

Dear Mr. Secretary:

Ginnie Mae has been a cornerstone of the U.S. mortgage market since it was created more than 40 years ago. During Fiscal Year (FY) 2009, in the midst of continued economic turmoil—arguably one of the worst downturns in U.S. history since the Great Depression—Ginnie Mae continued to be a significant stabilizing factor in the housing and capital markets. And by maintaining vigilance and a commitment to our mission, Ginnie Mae has proven that prudence is a good business strategy.

Ginnie Mae's mission, to support the expansion of affordable housing in America by linking the global capital markets to the nation's housing markets, has never been more important than it is today. We promote homeownership and affordable rental housing through guaranteeing mortgage-backed securities (MBS) backed by government-insured or government-guaranteed single family and multifamily mortgages. As such, Ginnie Mae creates and sustains housing opportunities, both of which are vital to the American economy. Our first job has been, and continues to be, to provide liquidity to the market by expanding the investor base of Ginnie Mae MBS, particularly at a time when traditional lending sources have scaled back significantly in making capital available. The industry continues to turn to the safety and security of Ginnie Mae MBS products, because they are founded on the full faith and credit backing of the U.S. Government.

Ginnie Mae has had a notable positive impact on housing and our nation's communities. Since 1970, Ginnie Mae has guaranteed $3.3 trillion in MBS, enabling it to play a direct role in providing homeownership and housing opportunities for millions of households. In FY 2009, Ginnie Mae guaranteed $418.9 billion in MBS and its market share of total agency and non-agency MBS was 25 percent, levels not seen since the mid-1990s. In July 2009, Ginnie Mae hit a remarkable milestone of issuing over $46 billion alone, the highest monthly amount in our history.

Ginnie Mae is also helping to stabilize the housing market during the current crisis by supporting a number of federal government efforts to assist struggling homeowners and by facilitating a secondary market for the loans launched from these initiatives. When lenders know these loans can be pooled and then sold as Ginnie Mae MBS, they may be more willing to make modifications and lend to borrowers who need the critical help intended by these programs.

Another key goal for Ginnie Mae is to ensure that our securities obtain the best execution possible. Achieving this directly benefits borrowers with government loans by ensuring they receive the lowest possible interest rates. Transparency and full disclosure are critical elements that allow us to attain the best execution, and this fiscal year, we further enhanced our MBS disclosures and the capability for users to access important loan data.

The demand for government-backed loans and the need for the stability that Ginnie Mae offers also meant many more institutions wanted to become Ginnie Mae issuers. Applications for new issuers increased threefold from last year. This growth in issuance volume and new issuers, however, also presents potential risk. As a result, Ginnie Mae is intensifying its effort to enhance its risk management and internal controls. We have successfully managed an increasing issuer population in a prudent manner by tightening the controls around the approval process, reviewing issuers, and closely monitoring their performance. In addition, Ginnie Mae's Risk Committee and our oversight bodies are continually monitoring our controls to ensure that we can manage our issuance volumes in a sustainable and principled manner.

FY 2009 saw continued tremendous growth for Ginnie Mae, and our internal operations remained stable and strong. The recent expansion of government lending caused our MBS issuance to jump 90 percent on a year-over-year basis. Our systems managed this volume increase well. Also, Ginnie Mae completed several significant technical initiatives that will enhance our ability to maintain operational flexibility and position us for the future, beyond the current crisis.

The surge in volume clearly shows that we are providing the support the secondary market needs as the mortgage finance industry continues to work its way through the housing downturn and credit crisis. Ginnie Mae was created to provide stability when the market needs it most, and that is exactly what it is doing now.

Sincerely,

Thomas R. Weakland

Thomas R. Weakland
Acting Executive Vice President

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I. MISSION AND PURPOSE

Nearly two years into a global recession that has distressed the nation's housing markets and virtually halted the issuance of private-label mortgage-backed securities (MBS), Ginnie Mae remains stable and secure and continues to grow steadily. Ginnie Mae's mission to expand affordable housing by channeling global capital into the nation's housing markets has never been more important. By providing investors with the full faith and credit guaranty of the U.S. Government on the timely payment of principal and interest, Ginnie Mae enables qualified mortgage lenders to sell their mortgage loans at favorable prices in the secondary market and attract new sources of capital. Lenders then can use the proceeds to make new mortgage loans available. This also helps to lower financing costs and create opportunities for sustainable, affordable housing for American families, including those under financial strain who have needed to modify or refinance their

existing mortgages. Furthermore, specific Ginnie Mae programs help to provide affordable rental housing, build strong communities, incentivize financial institutions to lend in distressed areas, and support military families. Through these efforts, Ginnie Mae continues to fulfill its purpose and support our national housing finance system in this critical period in the U.S. economy.

Ginnie Mae and the American Housing Finance System

America's current housing finance system traces its roots to the Great Depression, an era to which our current economic environment is frequently compared. In the early 1930s, soaring unemployment produced large-scale defaults and foreclosures that led to an oversupply of property and caused real estate prices to plunge. Congress responded to the crisis by passing the National Housing Act of 1934, which established the Federal Housing Administration (FHA). One of the principal objectives of FHA was to increase the flow of capital to the housing markets by insuring private lenders against the risk of mortgage default. FHA also was tasked with chartering and regulating a national mortgage association that would buy and sell FHA-insured mortgages.

Responding to the fragmented, inefficient, and illiquid nature of the housing finance market, Congress amended the act in 1938 to create the Federal National Mortgage Association (now known as Fannie Mae), which established a secondary market for FHA loans. This new organization helped to establish standards and a degree of national uniformity in mortgage loan interest rates and mortgage terms, as well as create an outlet for banks to sell their mortgages. It was not until 1968, however, in response to the need to further broaden the capital base available for mortgages, that the housing finance system began to resemble its current form. In that year, Congress established the U.S. Department of Housing and Urban Development and partitioned Fannie Mae into two entities: (1) Fannie Mae, which retained responsibility for purchasing "conventional" (non-U.S. Government-guaranteed) mortgages that conformed to specified standards, and (2) the Government National Mortgage Association, now known as Ginnie Mae. Ginnie Mae was created within HUD to provide the full faith and credit guaranty of the U.S. Government for the timely payment of principal and interest on MBS, secured by pools of government loans. These loans are insured or otherwise guaranteed by FHA, HUD's Office of Public and Indian Housing

(PIH), the U.S. Department of Veterans Affairs' (VA) Home Loan Program for Veterans, and the U.S. Department of Agriculture's Rural Development Housing and Community Facilities Programs and Rural Development Guaranteed Rural Rental Housing Program (Rural Development). Today, Ginnie Mae remains a wholly-owned government corporation within HUD, administered by the Secretary of HUD and the President of Ginnie Mae. By reducing the risk of investing in these government-backed mortgages through its explicit U.S. Government guaranty, Ginnie Mae expands access to capital markets and, in the process, helps to reduce the cost and increase the availability of mortgage credit.

Providing Market Liquidity and Stability

In 1970, Ginnie Mae became the first organization to develop and guarantee MBS products and has continued to provide critical liquidity for mortgage credit ever since. Even in uncertain times, investors in Ginnie Mae MBS products are guaranteed payment of interest and principal in full and on time. This guaranty, along with an expected return higher than U.S. Treasury securities, makes Ginnie Mae securities highly liquid and attractive to domestic and foreign investors of all types. The benefits of this liquidity are passed on to the lenders who can then make more mortgage loans at more affordable rates. This ongoing cycle helps support accessible and affordable housing for America. Figure 1 shows the process of creating Ginnie Mae securities.

Ginnie Mae's fundamental business model significantly limits its exposure to risk. Ginnie Mae is not in the business of making or purchasing mortgage loans. It also does not purchase, sell, or issue securities. Accordingly, Ginnie Mae does not use derivatives to hedge and it does not carry long-term debt (or related outstanding securities liabilities) on its balance sheet. Instead, private lending institutions approved by Ginnie Mae originate eligible loans, pool them into securities, and issue the Ginnie Mae MBS. These institutions include geographically diverse mortgage companies, commercial banks, and thrifts of all sizes, as well as state housing finance agencies (HFAs) (see Figure 2). Issuers must be reviewed and approved through a formal process and are monitored on an ongoing basis for performance and stability. Once approved, Ginnie Mae issues commitment authority to prospective issuers indicating that they meet Ginnie Mae's eligibility requirements. The issuers then can begin to assemble mortgages into pools of loans and issue securities up to their commitment amount. Ginnie Mae's credit risk in this program is mitigated by mortgage insurance provided by other federal government agencies with respect to all pooled loans.

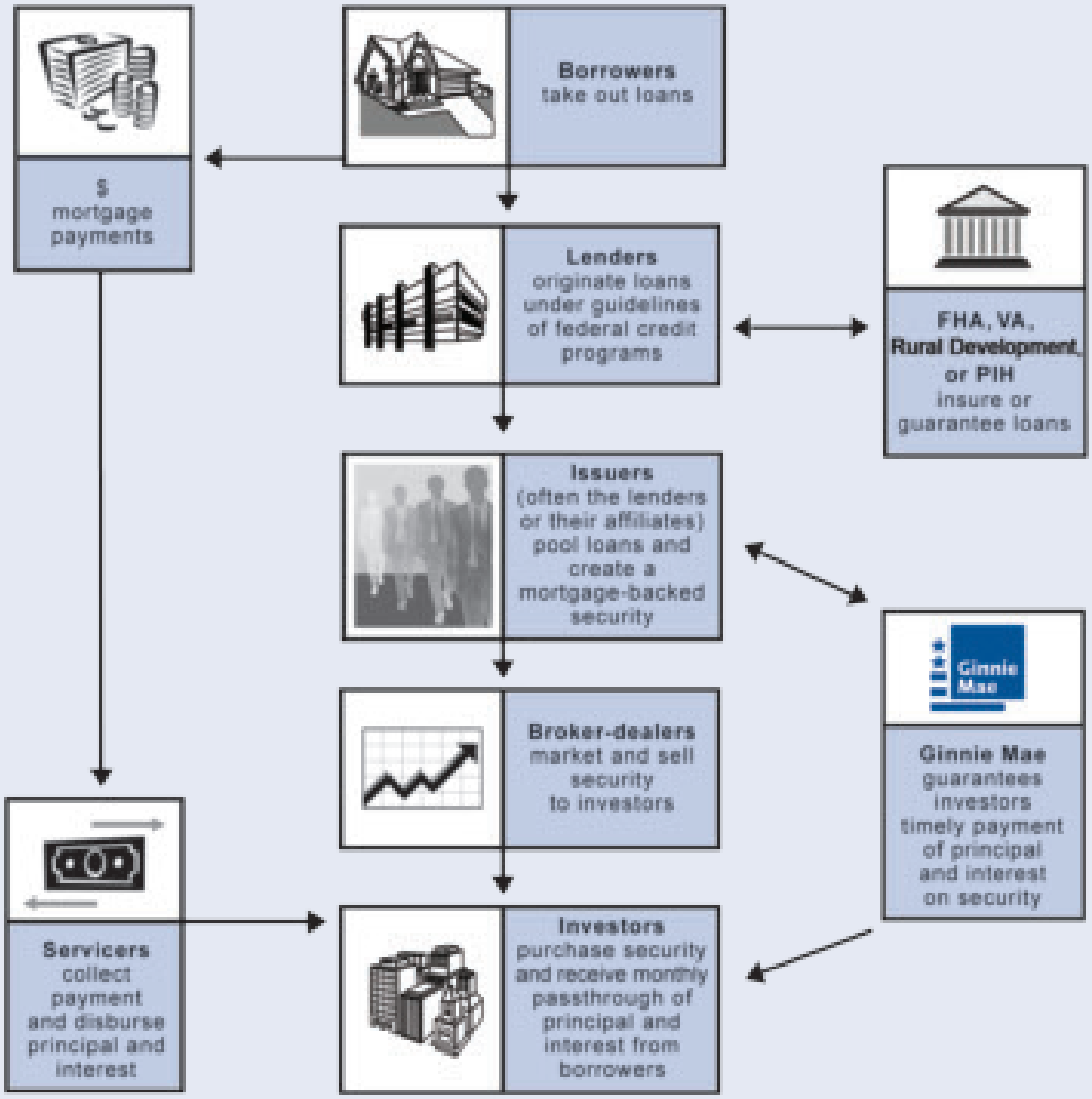
Ginnie Mae Products and Programs

Ginnie Mae develops its products and programs not only to enable single family and multifamily mortgage lenders to meet the housing finance needs of an ever-growing segment of borrowers and investors, but to help the federal government in its efforts to stabilize the domestic housing finance markets. At the core of the variety of MBS securities that Ginnie Mae offers are two products:

- **Ginnie Mae I MBS**, which require all mortgages in a pool to be of the same type (for example, single family), to be issued by the same entity, and to have the same fixed interest rate.
- **Ginnie Mae II MBS**, which are restricted to single family mortgages, but allow multiple-issuer pools to be assembled. In turn, this allows for larger and more geographically dispersed pools and the securitization of smaller portfolios.

These securities drive Ginnie Mae's efforts to create a secondary market for government-insured and government-guaranteed loans, and they serve as the underlying collateral for multiclass products such as Real Estate Mortgage Investment Conduits (REMIC), Callable Trusts, Platinums, and Stripped MBS (SMBS), for which Ginnie Mae also guarantees the timely payment of principal and interest. These allow the private sector to combine and restructure cash flows from Ginnie Mae MBS into securities that meet unique investor requirements in connection with yield, maturity, and call-option protection. They

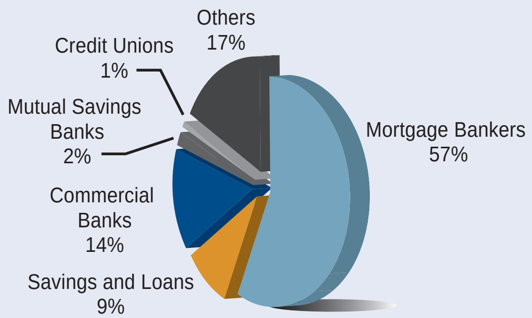
Figure 1: Ginnie Mae Securities Creation Process



help to increase liquidity in the secondary mortgage market and to attract new sources of capital.

- **REMICs** are investment vehicles that reallocate pass-through cash flows from underlying mortgage obligations into a series of different bond classes, known as tranches, which vary based on term and prepayment risk.
- **Callable Trusts** allow investors the flexibility to redeem or call a security prior to its maturity date under certain conditions to hedge against fluctuating interest rate environments.

Figure 2: Ginnie Mae Issuers by Institution Type
Number of Issuers Basis
(as of September 30, 2009)



- **Platinum** securities allow investors who hold multiple pools of MBS to combine them into a single Ginnie Mae Platinum Certificate.

- **SMBS** are custom-designed securities that redirect MBS principal and/or interest cash flows to meet investors' specific objectives. Ginnie Mae guarantees the timely payment of principal and interest on each class of SMBS.

Multiclass products are put together for offering in the public markets by approved Ginnie Mae Sponsors who have wide access to global investors. Selected Co-Sponsors, including minority and small-sized institutions with a diverse reach, also support the securities' offerings.

Single Family Program — The majority of Ginnie Mae securities are backed by single family mortgages predominantly originated through FHA and VA loan insurance programs (81 percent and 16 percent, respectively). More than 99 percent of FHA fixed-rate single family loans and 97 percent of VA fixed-rate single family loans were placed into Ginnie Mae pools in Fiscal Year (FY) 2009, exceeding HUD's performance goals for Ginnie Mae by 5 percentage points and 12 percentage points, respectively.

Within the single family program, the Targeted Lending Initiative (TLI) provides incentives for lenders to increase loan volumes in traditionally underserved areas. Established in 1996, the TLI program offers discounts ranging from one to three basis points on Ginnie Mae's six-basis-point guaranty fee, depending on the percentage of TLI-eligible loans within the security. The reduced fee gives lenders an incentive to originate loans in TLI areas.

HMBS Program — In addition to traditional mortgages, Ginnie Mae's expanding Home Equity Conversion Mortgage (HECM) securities program supports a growing number of FHA-insured reverse mortgages, an increasingly indispensible financial solution for many seniors. HECM loans can be pooled into HECM Mortgage Backed Securities (HMBS) within the Ginnie Mae II MBS program. They can serve as collateral for REMICs backed by HMBS (H-REMICs), which were introduced in FY 2008.

Manufactured Housing Program — Ginnie Mae's manufactured housing program allows for the issuance of Ginnie Mae pools for loans insured by FHA's Title I program. The program is small, but continues to benefit this segment of the housing market.

Multifamily Program — Just as Ginnie Mae's single family products reduce finance costs for homebuyers, its multifamily products have an analogous impact on maintaining affordable rents for individuals and families and contributing to stable communities.

By guaranteeing multifamily pools that are sold to investors in the global capital markets, Ginnie Mae enables lenders to reduce mortgage interest rates paid by developers and property owners of apartment

buildings, hospitals, nursing homes, assisted-living facilities, and other structures that lend support and bring jobs to communities across the country. During the current economic turmoil, decent, affordable, and safe rental housing is a critical need for a large number of families.

Since developing and pioneering the MBS and revolutionizing the housing finance industry, Ginnie Mae has guaranteed approximately $3.3 trillion in MBS, providing access to affordable housing for millions of Americans and standing as a cornerstone of the U.S. mortgage market. Figure 3 shows the cumulative amount of Ginnie Mae MBS from 1970 to 2009.

Additional information can be found at Ginnie Mae's website at http://www.ginniemae.gov.

II. GINNIE MAE'S ROLE IN MARKET RECOVERY

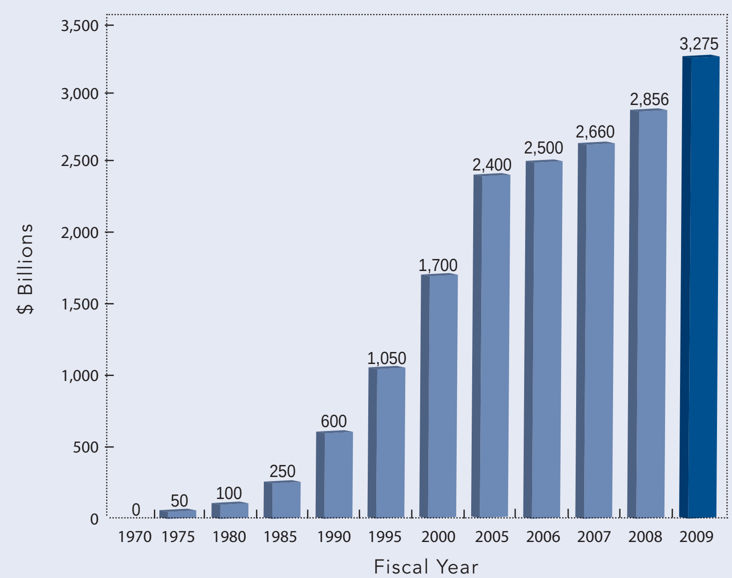
In the midst of continuing global economic stress and challenges to the U.S. housing market, Ginnie Mae MBS issuance grew for the third year in a row.

In FY 2009, Ginnie Mae issued $418.9 billion in MBS, up from $220.6 billion in FY 2008 and $85.1 billion in FY 2007. In July 2009, Ginnie Mae hit a remarkable milestone by issuing $46.2 billion in MBS in one month alone, the highest monthly amount in its history. As the federal government continues to respond to the housing and financial crises, Ginnie Mae is playing an integral role in anticipating and responding to the needs of its issuers, investors, and the market as a whole. With continued investor demand for a full faith and credit guaranty, Ginnie Mae has been quick to respond to modify and create securitization products that provide liquidity for FHA programs and the government initiatives to stabilize the U.S. housing market.

Market Environment

In an interrelated cycle that has continued for more than two years, the housing market and the greater financial system have been stressed by several factors, including widespread and growing unemployment, declining home values, and tight credit conditions. Many mortgage lenders have become unwilling or unable to lend to borrowers amidst growing fears about rising delinquencies and foreclosures, as well

Figure 3: Cumulative Amount of Ginnie Mae Mortgage-Backed Securities, Fiscal Years 1970-2009



as a severe lack of liquidity. In fact, many lenders simply left the market. Stemming from conditions that began in 2007, investors continue to lack confidence in securities backed by nonconforming or non-government-insured loans. Many lenders that relied on the ability to sell or securitize such loans in the private market to fund new mortgages have stopped originating them. Furthermore, in 2009 a new liquidity crisis faced mortgage bankers—even those who offer the safest loans—as warehouse lenders[1] cut back on capacity. Several warehouse lenders exited the business and others sharply reduced the critical short-term financing necessary to fund loans. As a result, many consumers have been negatively impacted by higher rates and costs, longer closing periods, and often a lack of available mortgages altogether.

Tight credit markets and recession fears also have hit the multifamily housing sector. Real estate valuations have fallen and there is a lack of investor demand for non-government-insured multifamily loans. As a result, owners of apartments, hospitals, and senior housing facilities have had a difficult time finding credit for projects through traditional private financing sources. Consequently, the multifamily market also has turned to government loans and the related liquidity that Ginnie Mae's full faith and credit guaranty offers.

Recent Federal Programs

In their continuing response to market conditions, the U.S. Treasury, the Federal Reserve, and other agencies have taken bold and decisive steps to promote financial stability and housing market recovery. Ginnie Mae has played an integral role. These government initiatives, several of which began in 2008, include improving opportunities for homeowners to refinance, modifying distressed loans, raising loan limits to allow greater access to government loan programs, extending amortization terms to improve affordability, and directly purchasing agency MBS. As the federal government has assisted borrowers and an industry in crisis, Ginnie Mae has been able to modify its existing programs and products and implement new ones to support these initiatives by enabling a secondary market for related securities. When lenders know that loans can be pooled and then sold as Ginnie Mae MBS, they may be more willing to make modifications and lend to borrowers who need the critical help intended by these programs. Investors' continued confidence in the full faith and credit guaranty that Ginnie Mae securities carry enables the federal government to offer creative solutions to homeowners and the distressed housing market.

One of the earliest and most widely known government initiatives in this recent crisis was the Housing and Economic Recovery Act of 2008 (HERA), which established the temporary FHA mortgage insurance refinancing program known as HOPE for Homeowners (H4H). H4H, which became effective October 1, 2008, and will continue through September 30, 2011, was designed to assist homeowners facing foreclosure. It enables lenders to refinance conventional mortgages and existing government-insured or government-guaranteed mortgages into FHA-insured loans. Ginnie Mae responded quickly by setting up a product under the Ginnie Mae II MBS program's multiple-issuer pool type, and began accepting H4H loan packages starting with November 1, 2008, pool dates. In addition, beginning with securities issued on or after February 1, 2009, Ginnie Mae now allows issuers to pool the 40-year H4H mortgages into a new 40-year

[1] Warehouse lenders provide funds to mortgage banks that are non-depository institutions for the purpose of financing mortgage loans before they are sold to investors. As such, they are a critical component in making funds available for borrowers.

multiple issuer pool, again increasing opportunities for such loans to be available to borrowers.

Ginnie Mae also responded to the temporary increase in FHA loan limits in FY 2008 by expanding the eligibility requirements of Ginnie Mae II MBS pools to allow for higher-balance FHA-insured loans (those above $417,000 and up to as much as $729,750 in certain areas of the country). Investors showed widespread interest in these pools, and in FY 2009, the American Recovery and Reinvestment Act of 2009 granted FHA permanent authority to guarantee certain high-balance mortgage loans. Ginnie Mae worked with the Securities Industry and Financial Markets Association (SIFMA) to ensure that high-balance loans would be eligible for the highly liquid TBA pools.[2] Ginnie Mae announced that on or after January 1, 2009, it would allow high-balance loans originated after October 1, 2008, to be commingled in TBA-eligible pools as long as such loans do not exceed 10 percent of the unpaid principal balance of each pool or loan package. These higher loan limits are another example of how Ginnie Mae's flexibility and swiftness in modifying its programs increases access to affordable housing, in this case mortgage financing, which would otherwise have been unavailable or much more costly.

HERA also amended the Servicemembers Civil Relief Act (SCRA) to extend the period of interest forgiveness for eligible borrowers. Under SCRA, Ginnie Mae reimburses issuers for interest in excess of 6 percent on loans made to active duty military personnel, thus giving lenders incentive to lend to those who serve our country. Through 2010, Ginnie Mae is extending the period for which it reimburses issuers for SCRA shortfalls to include an additional 12 months past the SCRA borrower's official end of duty.

Ginnie Mae changed its buyout policy to support FHA's Home Affordable Modification Program (FHA-HAMP), which was implemented as part of the Helping Families Save Their Homes Act of 2009. The FHA-HAMP initiative is designed to provide additional loss mitigation strategies for FHA-insured loans and to help prevent foreclosures for delinquent and at-risk borrowers. Issuers currently are required to buy delinquent loans out of Ginnie Mae pools in order to modify the terms. Issuers then have an opportunity to re-pool modified loans. Beginning in August 2009, issuers were permitted to buy out loans when the loan has been in a state of continuous default for 90 days. In effect, the new policy allows an issuer to repurchase a loan where any portion of any single payment has been delinquent for 90 days. The new buyout policy applies only to loans that are approved for participation in the FHA-HAMP 90-day trial modification program.

Capital Markets

The secondary market for mortgages is critical to the flow of capital between lenders and borrowers, because lenders have a limited appetite to originate loans that cannot be sold. Ginnie Mae's role has been vital to this process. It has been able to support government economic recovery initiatives and the subsequent new mortgage products by enabling a liquid and stable secondary market for MBS. The

[2] TBA is a "to-be-announced" trade that is a contract for the purchase or sale of agency MBS to be delivered at a future agreed-on date. However, an actual pool identity or the numbers of pools that will be delivered are unknown at the time of the trade. Actual mortgage pools are "allocated" to the TBA transaction upon settlement, which may be a number of months after the trade date. The homogeneity of the underlying pools gives investors' confidence that the specific pool delivered will meet their needs. Consequently, the TBA market is the most liquid and most important secondary market for mortgage loans. Source: SIFMA, http://www.sifma.org/ capital_markets/ TBA-MBS.shtml (accessed August 29, 2009).

market for safe and secure government securities is still extraordinarily robust, as evidenced by global investors' continued strong demand for Ginnie Mae's full faith and credit guaranty.

Ginnie Mae also strives to ensure that its securities obtain the best execution possible in the market and that they sustain their value. This focus on value benefits borrowers by providing for the lowest interest rates possible. Initiatives to enhance transparency and full disclosure, as noted in Section III of this report, have been critical in attaining the best execution and favorable pricing. Ginnie Mae securities continue to trade consistently with tighter spreads to Treasury than those of the government-sponsored enterprises (the GSEs—Fannie Mae and Freddie Mac) and significantly better than private-label securities. Overall, investors remain very satisfied with Ginnie Mae's consistent performance. In addition, as more investors are looking to buy different exposures of the yield curve, Ginnie Mae's REMIC products are easily tailored to meet such needs.

In an effort to increase liquidity and stabilize the housing market, in early January 2009 the Federal Reserve Bank of New York began to purchase fixed-rate agency MBS. As of the end of FY 2009, approximately 7 percent of the purchases in this program have been of Ginnie Mae MBS; the remaining 93 percent were purchases of Fannie Mae and Freddie Mac MBS.[3] This is evidence of the overall market's confidence in the strength of Ginnie Mae securities. As the program gained momentum during its first few months, it had a direct impact on reducing mortgage interest rates throughout the market. By the end of March, interest rates for 30-year fixed-rate mortgages were the lowest on record at nearly 4.6 percent, almost 50 basis points below rates at the beginning of the year.[4]

The decline in mortgage rates that accompanied the Federal Reserve Bank of New York's MBS purchase program had a significant impact on the mortgage markets when activity surged in late February 2009. The following month, refinance applications soared and during the first quarter of calendar year 2009, the refinance share of all mortgage originations was 70 percent.[5] In March alone, FHA single family refinance applications jumped to over 60 percent of all FHA single family applications, far ahead of the FY 2008 annual rate of 48 percent.[6]

Through all of the turmoil in the securities markets over the last several years, Ginnie Mae guaranteed securities continue to perform well and reward investors' confidence in Ginnie Mae products.

Market Share Context

The dramatic halt in issuance of private-label MBS that began in the middle of 2007 has eased only a little; only $51.6 billion in non-agency MBS was issued in FY 2009, compared to approximately $101.3 billion in FY 2008 and $930.2 billion in FY 2007. By contrast, the total issuance of agency MBS during FY 2009 rose to $1.6 trillion from $1.2 trillion in FY 2008.

Signifying the important role that Ginnie Mae has played in providing a secondary market, by the end of September 2009 its share of the total MBS (agency

[3] New York Federal Reserve, http://www.newyorkfed.org/markets/MBS/PurchasesArchive/purchases_archive.html (accessed October 30, 2009).
[4] The Mortgage Bankers Association, *Weekly Mortgage Applications Survey*, April 1, 2009, and January 7, 2009.
[5] The Mortgage Bankers Association, *MBA Mortgage Finance Forecast*, October 13, 2009.
[6] HUD, *FHA Outlook: Single Family Operations*, September 1-30, 2009, and March 15-31, 2009, http://www.hud.gov/offices/hsg/comp/rpts/ooe/olmenu.cfm (accessed October 30, 2009).

and non-agency) market for the calendar year to-date was 23 percent, up from 22 percent at the end of the calendar year 2008. In fact, during the first quarter of FY 2009, its share of the MBS market reached over 35 percent. For the first time, in October 2008, Ginnie Mae issuance surpassed that of both Fannie Mae and Freddie Mac. Although GSE issuance has grown in response to the overall increase in lending in subsequent months, causing some contraction for Ginnie Mae, Ginnie Mae's market share has remained historically high. Figure 4 shows Ginnie Mae's market share from 1990 to 2009.

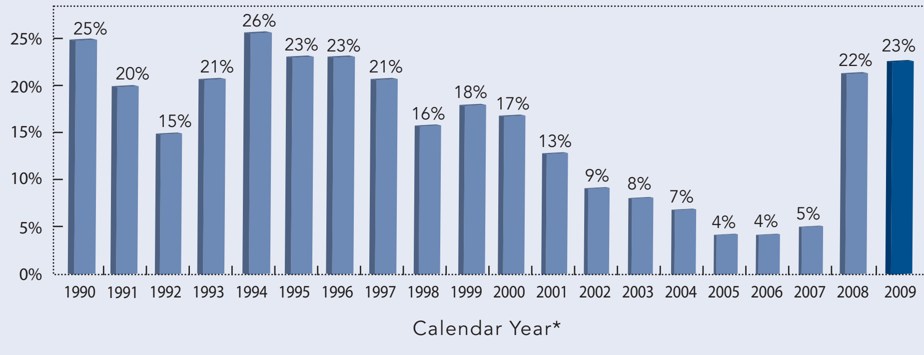
Attaining high market share, however, is not Ginnie Mae's goal. Rather, Ginnie Mae was created to provide stability and liquidity in times of crisis, when others cannot. Ginnie Mae's role is similar to that of a shock absorber, able to expand and contract as needed to smooth out bumps in the market. Recent times have meant that the federal government, lenders, and investors have relied heavily on Ginnie Mae, and this has been revealed in its dramatic volume growth and increase in market share. As the private market, along with Fannie Mae and Freddie Mac, struggle to support mortgage financing, Ginnie Mae leads the way in bringing capital to the nation's housing markets.

III. HIGHLIGHTS AND INITIATIVES

In the nearly four decades since it introduced the first MBS, Ginnie Mae's strong and steady core competencies have been complemented by its ability to adapt to market conditions. This combination of conservative financial management, with a willingness to embark on vital initiatives, is what positions Ginnie Mae to respond effectively to evolving market needs. In FY 2009, Ginnie Mae continued in this tradition by playing a key role in supporting the recovery of the nation's housing market. While the recent flight to quality has renewed interest in the safety and soundness of Ginnie Mae's MBS and enhanced its market presence, a number of recent initiatives have enabled Ginnie Mae to contribute to the recovery in other ways. These include enhancements in Ginnie Mae's multifamily program and several technology and process improvements.

The rapid increase in volume also demands that Ginnie Mae closely monitor its operations and risk strategies. Ginnie Mae's systems operations and outsourced business model have handled the high issuance volume well, which is a testament to their

Figure 4: Ginnie Mae Market Share, 1990 through 2009



Source: *Inside Mortgage Finance Publications*

* *Market share figures based on MBS issuance volumes for the 12 months of the calendar year for 1990 through 2008, and for the first 9 months of the calendar year for 2009.*

resilient design and execution. As an organization with significant responsibility, however, Ginnie Mae is aware that it must be vigilant to ensure that the appropriate resources, infrastructure, and internal controls are in place to manage the risk that results from this difficult environment, and that it must be positioned to continue providing the liquidity the market needs. As such, Ginnie Mae continually reviews its business and risk management strategy and targets procedures to ensure its effective and efficient management of risks.

Program Highlights

In FY 2009, Ginnie Mae programs continued to meet critical market needs affecting a broad spectrum of borrowers. As previously noted, Ginnie Mae immediately responded to accommodate the provisions of various federal government initiatives that increased FHA loan limits and encouraged loss mitigation efforts through loan modifications and special foreclosure prevention loan products. Ginnie Mae added pooling mechanisms and altered the parameters of its securities to accommodate these loan limit increases and assistance programs. This was accomplished in a manner that allowed Ginnie Mae MBS to remain eligible for standard market trading and the best pricing levels.

As borrowers turned to the government loan programs in a challenging borrowing environment, Ginnie Mae's single family program guaranteed a record breaking $413.9 billion of single family MBS, providing the liquidity needed for approximately 99 percent of FHA's mortgage loans and the majority of VA, Rural Development, and other government loans. The number of Ginnie Mae guaranteed single family MBS outstanding has doubled in the last two years. Ginnie Mae's infrastructure, staffing, and technology have allowed record levels of successful securitization, including $45.7 billion of single family MBS in a single month during FY 2009.

In FY 2009, the reverse mortgage securities program that Ginnie Mae pioneered moved from pilot status to an enduring and vital mechanism for allowing seniors to remain in their homes. Ginnie Mae's HMBS is the only securitization program currently available for FHA's HECM reverse mortgage products. Ginnie Mae's HMBS program continues to gain momentum; approximately $3.5 billion of the total $6.3 billion in the outstanding principal balance as of the end of FY 2009 was issued in the last 3 months of the fiscal year.

Ginnie Mae has also forged productive relationships with state HFAs and supported their ability to issue Ginnie Mae securities. The challenging credit conditions in the market have meant that many HFAs have not been able to sell revenue bonds—their traditional source of funding—and, therefore, were unable to finance low-cost mortgages for lower income first-time homebuyers. In early FY 2009, Ginnie Mae's Office of MBS met with many of the HFAs to discuss their needs and subsequently conducted a multiple-day orientation

class specifically for them. This class was well-received and, subsequently, Ginnie Mae received issuer applications from 12 HFAs. Seven of these have already been approved, with the remaining in process as of the end of FY 2009. Of the newly approved HFA issuers, many have begun to pool eligible loans and issue Ginnie Mae MBS, enabling them to access critical liquidity sources.

Marking a significant milestone, Ginnie Mae's multifamily program guaranteed the largest security in its history. The loan securing the $756 million transaction was for a state-of-the-art medical services facility in Trenton, New Jersey, originated under the FHA's Hospital Mortgage Insurance Program. With approximately 2,000 permanent jobs expected to directly result from the project, this demonstrates how Ginnie Mae's programs can benefit communities across the country.

> *"The strength and stability that Ginnie Mae offers in these times means that we can continue providing opportunities for our customers to purchase and stay in their homes, which contributes to stable communities across the regions we serve."*
>
> Tuck Reed
> Executive Vice President of Capital Markets
> SunTrust Mortgage, Inc.

Business Process Improvements and Technology Enhancements

Ginnie Mae's business model exudes simplicity, enabling it to respond with ease and flexibility to significant volume changes and allowing it to effectively manage risk of loss. In FY 2009, Ginnie Mae made great strides in furthering its internal Business Process Improvement (BPI) modernization initiative, which is designed to enhance scalability and flexibility in its processes, while enhancing risk management and monitoring capabilities. The BPI blueprint was established by engaging Ginnie Mae's senior management team, with significant input from Ginnie Mae staff. Additional input was obtained from Ginnie Mae issuers, major service bureaus, and Wall Street brokers/dealers to develop a comprehensive set of business process improvements designed to improve Ginnie Mae's efficiency, enhance customer service, increase productivity, and reduce costs. While the BPI is still underway, many of its foundational elements were implemented during FY 2009. Ginnie Mae now is poised to provide lenders and investors with additional value based on these BPI investments, such as enhancing the efficiency of loan reporting, improving the timing of data disclosure, and reducing issuer costs to process pool remaining principal balance (RPB). Ginnie Mae plans to add more tools capable of providing additional insights into the active portfolio's behavior and trends, with a focus on mitigating risk and fraud.

Perhaps at no other time in Ginnie Mae's history have operational flexibility and transparency been as important as they are today. Ginnie Mae completed the second and most important phase of its business process improvement initiative to upgrade its technology infrastructure. Completing these major system enhancements has positioned Ginnie Mae to more quickly and efficiently address the additional demands that are being placed on its operations as a result of the surge in its business. Specific features and highlights of the BPI include the following:

- **Reporting and Feedback System (RFS) —** Ginnie Mae implemented a new RFS that significantly streamlines the reporting process for issuers. The new capabilities and features allow issuers more streamlined access to Ginnie Mae's system tools. New operating processes will contribute to the integrity of data submissions and provide a more efficient system to make corrections. The accelerated reporting deadlines will also decrease the time frame in which information is disclosed to investors.

- **Ginnie Mae Enterprise Portal —** The portal will be the single point-of-entry to all of Ginnie Mae's business applications, providing a single sign-in authentication process. It will allow Ginnie Mae

to define specific data that may be viewed by individual issuers thus enabling Ginnie Mae to better secure its data and ultimately simplify issuers' access and usage.

- **The Enterprise-wide Operational Data Store (EWODS) —** EWODS is Ginnie Mae's central data repository. This database consolidation project, which began in FY 2008, was completed during FY 2009. The EWODs consolidation has eliminated the need for multiple databases and improved data integrity. It will simplify and expedite future development efforts.

- **Pool Delivery System (GinnieNET) —** Ginnie Mae enhanced its GinnieNET system to accommodate the collection of additional loan-level data at pooling, which will be made available to investors for pricing purposes. The system also facilitates the identification of TLI-eligible loans, making it easier for issuers to promote mortgage lending in economically disadvantaged areas.

In addition to improving Ginnie Mae's technical environment, this simplification of processes is expected to reduce Ginnie Mae's operational costs and the overall cost of doing business in the future. These infrastructure enhancements also have contributed significantly to Ginnie Mae's risk management and monitoring capabilities.

Disclosure Enhancement

Transparency and disclosure are essential to the execution and liquidity of Ginnie Mae's securities; therefore, Ginnie Mae continues to prioritize the development of its MBS Disclosure Enhancement Project. As reported in last year's Annual Report, the enhanced disclosures enable investors to view key pool-level data relating to FICO®[7] scores, loan-to-value ratios, debt-to-income ratios, and Metropolitan Statistical Areas. The solution was enhanced in FY 2009 to enable users to search the enhanced database at the pool and CUSIP-level[8] via Ginnie Mae's website by using a new search engine that enables users to obtain monthly disclosure data for specific securities.

Risk Management Initiatives

As security issuance volumes have climbed rapidly and the current lending environment has yet to stabilize fully, risk management is paramount. Ginnie Mae undertook efforts in the past two years to re-engineer its risk management strategy and continues to rely on a cross-functional approach to overseeing its issuers, internal operations, and controls. In addition, Ginnie Mae's Chief Risk Officer, the Risk Committee, and the Issuer Review Board play increasingly important roles.

[7] FICO originated from Fair Isaac Company, the company that created—and computes—this credit score.
[8] Committee on Uniform Securities Identification Procedures

Issuer Oversight

The increased demand for government products in the primary and secondary markets has driven more issuers to Ginnie Mae as lenders seek to meet the needs of eligible borrowers and to fill a gap left by the market breakdown. In FY 2009, applications for new issuers increased threefold from the previous year, and 37 new issuers were approved, including seven new state HFAs. As issuers of Ginnie Mae MBS make an important contribution to the expanded availability of affordable housing in the United States, applicants must demonstrate that they have the organizational, financial, procedural, and quality assurance processes that will qualify them to participate in the program. Ginnie Mae conducts thorough reviews, approvals, and oversight of issuers through its Office of MBS.

During FY 2009, Ginnie Mae put into place additional provisions to strengthen issuer requirements and procedures to ensure extra vigilance and risk management in the review and monitoring process. Beginning October 1, 2008, all new issuers in the single family and HMBS program had to have a minimum net worth of $1 million, up from the previous $250,000 requirement. By October 1, 2010, all existing issuers in these two programs will be required to meet the new standard. In addition, new issuers are now subject to a one-year probationary period, which commences upon their first issuance of a Ginnie Mae MBS or upon their acquisition of a Ginnie Mae servicing portfolio. During the probationary period, Ginnie Mae closely evaluates performance metrics, including loan-level insurance statistics, delinquency levels, and final certification. Early payment defaults and other operational and financial issues are also monitored. An onsite review is conducted within 6 months of approval, and all findings must be cleared within a given time frame.

Ginnie Mae has expanded its capacity to review all of its issuers from both an operational and financial perspective, and Ginnie Mae has taken steps to mitigate exposure to fraud and abuse. Much of this effort is supported by Ginnie Mae's use of flexible staffing through contractors. In addition to the onsite reviews conducted for new issuers, existing issuers are reviewed onsite as necessary through regular monitoring of their financial statements, loan origination characteristics, and other performance measures. The Ginnie Mae Portfolio Analysis Database System (GPADS) helps track counterparty risk using portfolio statistics and comparing issuers with broader peer group activity. One example of these efforts is an enhancement to the insurance matching program, which verifies the government insurance status of underlying mortgages, to allow for the more timely identification and followup of loans lacking appropriate insurance documentation.

Ginnie Mae's Issuer Review Board supports the Office of MBS and the Risk Committee by reviewing, evaluating, and approving or denying certain issuer actions or requests. It meets on a regular basis and has the authority to accept or reject issuer applications, deny commitment authority requests for issuers with certain risk indicators, and provide recommendations to executive management.

As delinquencies and foreclosures have continued to rise for all loan types throughout the United States, Ginnie Mae is taking strong steps to review servicers that have significant performance issues. In FY 2009, the Office of MBS instituted a Special Servicer Review program to provide a targeted, onsite review of issuers that pose a potential risk to Ginnie Mae. Another way that Ginnie Mae mitigates its risk is through its right to assume issuers' portfolios in the event of default. Quick and decisive action by FHA and Ginnie Mae to impose sanctions when warranted is just one of the ways the two agencies have worked together to stop irresponsible lending practices, mitigate taxpayer losses, and preserve the integrity of both the primary and secondary mortgage markets.

Other Oversight and Internal Controls

Ginnie Mae has taken additional steps to improve risk management by enhancing internal controls and maintaining a well-trained workforce. Top internal priorities have included maintaining proper data security and enhancing other information technology (IT) controls. Ginnie Mae established a formal professional services support process during FY 2009 to assess, create, and augment IT management policy, procedures, and processes; security management; and project management. In addition, internal training in FY 2009 included mandatory coursework on IT security, as well as on other technical and business-related topics.

Human Resources and Contracting

In response to the unprecedented increase in program volume, Ginnie Mae was successful in securing approval to increase its staff capacity. These new positions will allow Ginnie Mae to backfill several long-term vacancies and add new positions with skill sets that meet today's market needs. Positions include, but are not limited to, a new Chief Risk Officer, Risk Analyst, Internal Controls Manager, and Counterparty Risk Manager, as well as several positions to support the Office of MBS. Recruitment and placement actions are ongoing with an expectation that all vacancies will be filled in early FY 2010.

Recognizing the changes in the market, Ginnie Mae was proactive in securing sufficient funding in FY 2009 to assist employees in addressing the changing demands of their positions. Accordingly, Ginnie Mae ensured staff received training in many areas, including information systems security, project management, and financial analysis.

With a heavy reliance on contract support to meet its mission, Ginnie Mae experienced a 52 percent increase above the number of procurement actions executed in FY 2008. Ginnie Mae also continued its commitment to use small businesses by awarding contracts and promoting their use by large contractors, whenever possible. Ginnie Mae was able to award $6.5 million of contract funds to small businesses in FY 2009.

IV. FINANCIAL HIGHLIGHTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS

Ginnie Mae's financial performance remained strong and stable during FY 2009. The year was marked by an increase in MBS program income due to an increase in the level of MBS issuance. Although program income increased from the previous year, FY 2009 revenue as a whole decreased as a result of lower interest income on investments. Ginnie Mae achieved excess revenues over expenses of $509.6 million in FY 2009, compared with $906.2 million in FY 2008. Revenues decreased by 35 percent to $657.3 million, down from $1,015.4 million in FY 2008. Total assets increased to $15.7 billion from $14.9 billion in FY 2008. Excess revenues were invested in U.S. Treasury securities.

The outstanding MBS portfolio guaranteed by Ginnie Mae increased by $249.2 billion in FY 2009, which led to increased guaranty fee revenues. In FY 2009, MBS program income, including other revenue source, increased to $547.8 million, up from $381.9 million in FY 2008. Interest income decreased to $109.5 million in FY 2009, down from $633.5 million in FY 2008.

In FY 2009, Ginnie Mae issued $446.6 billion in commitment authority, a 73 percent increase from FY 2008. The $418.9 billion of MBS issued in FY 2009 represents a 90 percent increase from FY 2008. The outstanding MBS balance of $826.0 billion at the end of FY 2009, compared to $576.8 billion in FY 2008, resulted from new issuances exceeding repayments. FY 2009 production provided the capital to finance home purchases, refinances, or rental housing for approximately 1.6 million U.S. households.

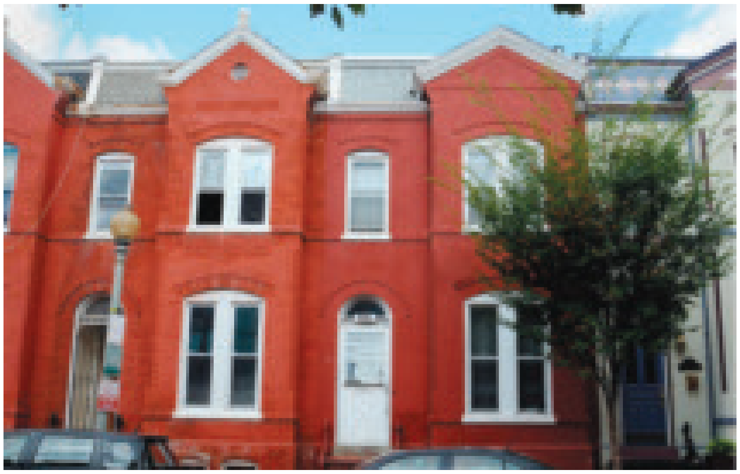
Table 1 provides financial highlights of Ginnie Mae over the past 3 years.

The following discussion provides information relevant to understanding Ginnie Mae's operational results and financial condition. It should be read in conjunction with the financial statements and notes in Section V of this report. These financial statements have received an unqualified audit opinion from Ginnie Mae's independent auditor. Ginnie Mae's operating results are subject to fluctuation each year, depending on the frequency and severity of losses resulting from general economic conditions, mortgage market conditions, and defaulting issuers.

Revenues

Ginnie Mae receives no appropriations from general tax revenue. Operations are self-financed through a variety of fees. In FY 2009, Ginnie Mae generated total revenue of $657.3 million. This included $547.8 million in program income and $109.5 million in interest income from U.S. Treasury securities. It should be noted that Ginnie Mae is required by the U.S. Treasury Department to invest any excess revenues in U.S. Treasury securities.

Figure 5 shows Ginnie Mae's total annual revenue for the last 5 years.



MBS Program Income

MBS program income consists primarily of guaranty fees, commitment fees, and multiclass fees. For FY 2009, MBS program income was concentrated in guaranty fees of $438.3 million, followed by commitment fees of $79.9 million. Combined guaranty fees and commitment fees made up 95 percent of total MBS program revenue for FY 2009. Other lesser income sources include new issuer fees, handling fees, and transfer-of-servicing fees. MBS

Table 1: Ginnie Mae Financial Highlights, Fiscal Years 2007 – 2009

September 30	2009	2008	2007
(Dollars in thousands)			
Balance Sheets Highlights and Liquidity Analysis			
Funds with U.S. Treasury	$ 5,253,800	$ 4,836,300	$ 4,432,600
U.S. Government Securities	$ 9,235,800	$ 9,254,000	$ 8,735,900
Other Assets	$ 1,184,800	$ 798,100	$ 542,200
Total Assets	$ 15,674,400	$ 14,888,400	$ 13,710,700
Total Liabilities	$ 1,638,100	$ 1,361,700	$ 1,090,200
Investment of U.S. Government	$ 14,036,300	$ 13,526,700	$ 12,620,500
Total RPB Outstanding (1)	$ 826,016,583	$ 576,761,925	$ 427,566,299
LLR (2) and Investment of U.S. Government	$ 14,596,200	$ 14,076,700	$ 13,156,300
Investment of U.S. Government as a Percentage of Average Total Assets	91.85%	94.59%	94.88%
LLR and Investment of U.S. Government as a Percentage of RPB	1.77%	2.44%	3.08%
Capital Adequacy Ratio (3)	1.73%	2.38%	2.98%
Highlights From Statements of Revenues and Expenses & Profitability Ratios Years Ended September 30			
MBS Program Income	$ 547,800	$ 381,900	$ 308,500
Interest Income	$ 109,500	$ 633,500	$ 482,800
Total Revenues	$ 657,300	$ 1,015,400	$ 791,300
MBS Program Expenses	$ 55,400	$ 49,000	$ 41,900
Administrative Expenses	$ 8,600	$ 8,800	$ 10,600
Fixed Asset Amortization	$ 5,100	$ 1,200	$ 500
Total Expenses	$ 69,100	$ 59,000	$ 53,000
Provision for Loss	$ 78,600	$ 50,200	$ –
Excess of Revenues over Expenses	$ 509,600	$ 906,200	$ 738,300
Total Expense as a Percentage of Average RPB	0.0099%	0.0117%	0.0127%
Provision for Loss as a Percentage of Average RPB	0.0112%	0.0100%	–

(1) Remaining Principal Balance (RPB) of Ginnie Mae MBS. This does not include $26.8 million of GNMA guaranteed bonds.

(2) Loan Loss Reserve (LLR).

(3) LLR and Investment of U.S. Government divided by the sum of Total Assets and Remaining Principal Balance.

Figure 5: Ginnie Mae Revenues, Fiscal Years 2005 – 2009

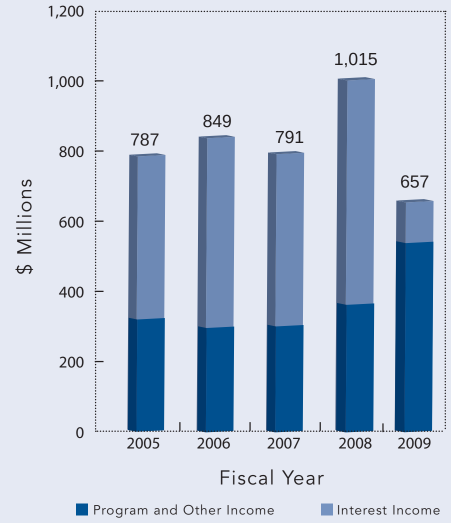
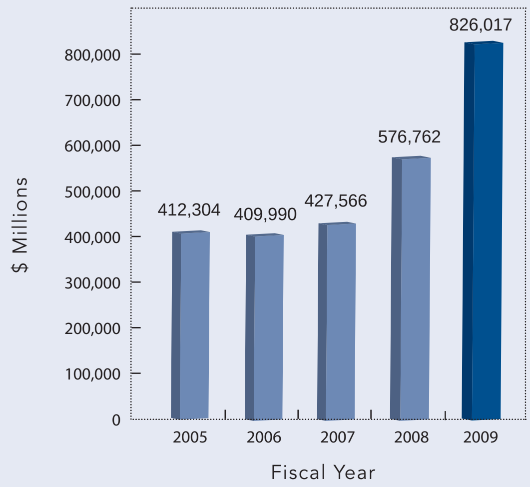


Figure 6: Remaining Principal Balance Outstanding in the Mortgage-Backed Securities Portfolio, Fiscal Years 2005-2009



program income increased in FY 2009 due to the increase in the MBS portfolio and MBS issuances.

Guaranty Fees

Guaranty fees are income streams earned for providing Ginnie Mae's guaranty of the full faith and credit of the U.S. Government to investors. These fees are paid over the life of the outstanding securities. Guaranty fees are collected on the aggregate principal balance of the guaranteed securities outstanding in the non-defaulted issuer portfolio. MBS guaranty fees grew 43 percent to $438.3 million in FY 2009, up from $306.8 million in FY 2008. These higher guaranty fees reflect the increase in the MBS portfolio. The outstanding MBS balance at the end of FY 2009 was $826.0 billion, compared with $576.8 billion the previous year, as new issuances exceeded repayments (see Figure 6).

Commitment Fees

Commitment fees are income that Ginnie Mae earns for providing approved issuers with the authority to pool mortgages into Ginnie Mae MBS. This authority expires 12 months from issuance for single family issuers and 24 months from issuance for multifamily issuers. Ginnie Mae receives commitment fees as issuers request commitment authority. It recognizes the commitment fees as earned when issuers use their commitment authority. The balance is deferred until earned or expired, whichever occurs first. As of September 30, 2009, commitment fees deferred totaled $26.1 million. Ginnie Mae issued $446.6 billion in commitment authority in FY 2009, a 73 percent increase from FY 2008.

Multiclass Revenue

Multiclass revenue is part of MBS program revenue and is composed of REMIC, SMBS, and Platinum program fees. Ginnie Mae issued approximately $88.7 billion in Platinum products in FY 2009 (see Figure 7). Total cash fees for Platinum securities amounted to $18.3 million. Total cash guaranty fees from REMIC securities totaled $22.1 million on $79.9 billion in issuance of REMIC products (see Figure 8). Ginnie Mae recognizes a portion of REMIC, Callable Trust, SMBS, and Platinum program fees in the period they are received, with balances deferred and amortized over the remaining life of the financial investment.

In FY 2009, Ginnie Mae issued $168.6 billion in its multiclass securities program (REMIC, SMBS, and Platinum). The estimated outstanding balance of multiclass securities in the total MBS securities balance on September 30, 2009, was $350.4 billion.

This reflects a $96.3 billion increase from the $254.1 billion outstanding balance in FY 2008.

Interest Income

Ginnie Mae invests the excess of its accumulated revenue over expenses in U.S. Government securities of varying terms. Ginnie Mae's interest income decreased as a percentage of total revenue. In FY 2009, interest income declined by 83 percent to $109.5 million from $633.5 million in FY 2008. The most prominent reason for the decrease was due to lower inflation compensation for the Treasury Inflation Indexed Securities, which was caused by a drop in the Consumer Price Index. In addition, there were significantly lower yields on U.S. Treasury securities during FY 2009 as compared to FY 2008, due to efforts by the federal government to use historically low interest rates to lower borrowing costs and pump more liquidity into the market.

Figure 7: Platinum Security Volume, Fiscal Years 2005-2009

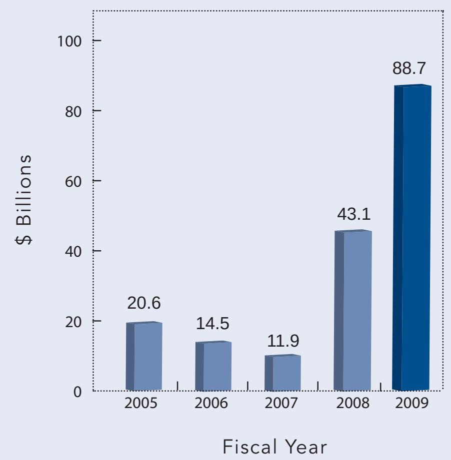
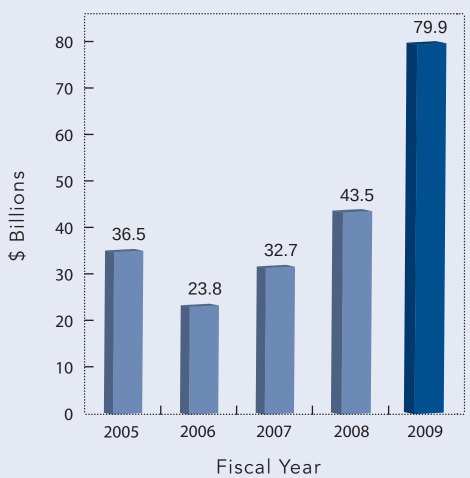


Figure 8: Total Real Estate Mortgage Investment Conduit Volume, Fiscal Years 2005 – 2009



Expenses

Management exercised prudent expense control during FY 2009. Although operating expenses in FY 2009 increased by 17 percent to $69.1 million, up from $59.0 million in FY 2008, the issuance of Ginnie Mae securities increased 90 percent during the same period. Total expenses were 11 percent of total revenues in FY 2009, up from 6 percent in FY 2008. The decrease in interest income and increase in operating expenses resulted in lower excess revenues over expenses of $509.6 million for FY 2009 versus $906.2 million for FY 2008 (see Figure 9).

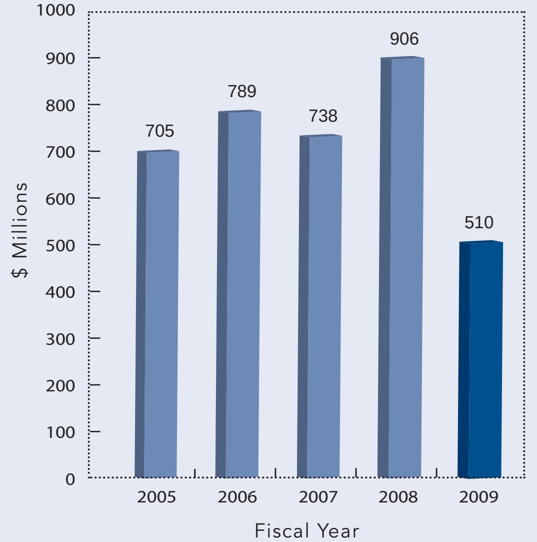
To support U.S. military personnel called into action, Ginnie Mae reimburses the interest on loans to service members who have FHA or VA mortgages with interest rates in excess of 6 percent. In FY 2009, this expense totaled $2.2 million; an increase from FY 2008 related expenses.

Table 2 represents the expenses related to Ginnie Mae programs and contractors during the last 5 years. Although issuance volume has grown more than fourfold, related expenses have been managed well over this time, as demonstrated in the table.

Credit-Related Expenses

Credit-related expenses include Ginnie Mae's Provision for Loss and defaulted issuer portfolio costs. Provision for Loss is charged against income in an amount considered appropriate to maintain adequate reserves to absorb potential losses from defaulted issuer portfolios and programs. The Provision for Loss increased by 57 percent to $78.6 million in FY 2009 as compared to $50.2 million in FY 2008. Ginnie Mae defaulted two single family issuers during FY 2009. Ginnie Mae believes that the reserve for loss is adequate to cover any noninsured losses sustained

Figure 9: Excess of Revenues over Expenses, Fiscal Years 2005 – 2009



for these issuers and from unknown future losses from the occurrence of periodic defaults.

MBS Issuance and Portfolio Growth

The demand for new government loans and the surge in FHA refinance activity caused Ginnie Mae MBS issuance to grow a remarkable 90 percent to $418.9 billion in FY 2009 (as shown in Figure 10). In July 2009, Ginnie Mae reached a new milestone by guaranteeing $46.2 billion, the highest monthly amount in its history. As shown in Figure 11, Ginnie Mae supported approximately 1.6 million units of housing for American families in FY 2009, a 69 percent increase from FY 2008.

Clearly, Ginnie Mae has made a significant impact on expanding homeownership and rental opportunities in the United States.

Single Family Program

The vast majority of the mortgages in Ginnie Mae securities are originated through FHA and VA programs. FHA-insured mortgages accounted for 81 percent of loans in Ginnie Mae pools, while VA-guaranteed loans accounted for 16 percent in FY 2009; Rural Development and PIH loans made up the other 3 percent. Although other agencies and private issuers can pool FHA-insured loans for their own MBS, almost all go into Ginnie Mae securities. In FY 2009, 99 percent of FHA loans and 97 percent of VA loans were placed into Ginnie Mae

Table 2: Program/Contractor Expenses, Fiscal Years 2005 – 2009

	2009	2008	2007	2006	2005
(Dollars In Millions)					
Central Paying Agent	$ 7.7	$ 8.0	$ 6.8	$ 8.5	$ 9.3
Contract Compliance	$ 0.3	$ 0.4	$ 0.9	$ 0.2	$ 0.8
Federal Reserve	$ 4.9	$ 2.5	$ 3.2	$ 1.9	$ 2.8
Financial Support	$ 0.8	$ 0.7	$ 0.8	$ 0.6	$ 0.7
IT Related & Miscellaneous	$ 5.4	$ 6.9	$ 4.6	$ 6.8	$ 3.0
Mortgage-backed Securities Information Systems Compliance	$ 15.1	$ 15.7	$ 11.9	$ 9.9	$ 17.0
Multiclass	$ 11.0	$ 11.2	$ 8.7	$ 7.9	$ 9.5
Multifamily Program	$ 8.0	$ 2.2	$ 5.0	$ 8.9	$ 11.1
Servicemembers Civil Relief Act	$ 2.2	$ 1.4	$ 0.0	$ 3.0	$ 4.1
Total	**$ 55.4**	**$ 49.0**	**$ 41.9**	**$ 47.7**	**$ 58.3**

Figure 10: Mortgage-Backed Securities Issuance of Ginnie Mae, Fiscal Years 2005 – 2009

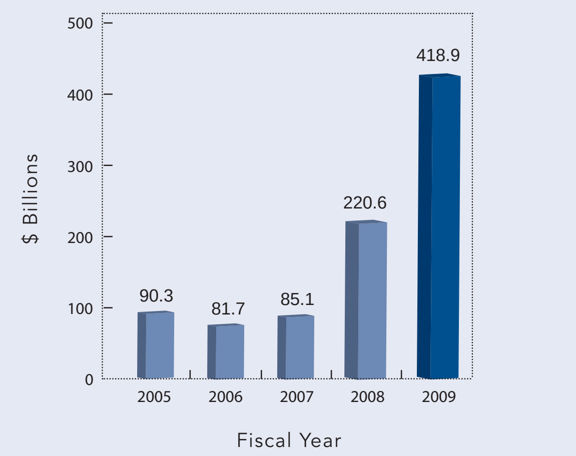
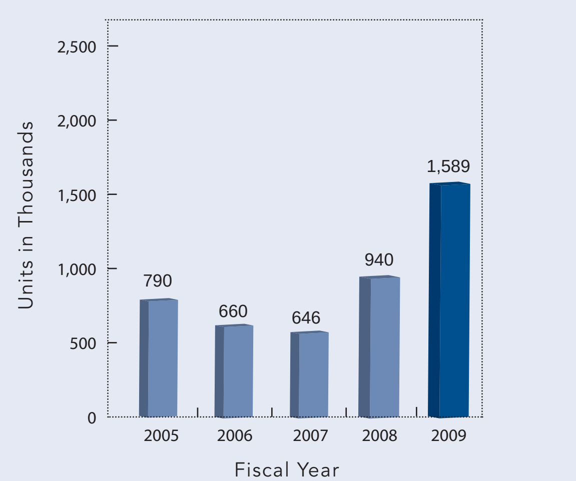


Figure 11: Ginnie Mae Supported Units of Housing, Fiscal Years 2005 – 2009



pools, once again exceeding the performance goals set by HUD. These goals include that Ginnie Mae securities contain at least 94 percent of eligible FHA single family fixed-rate loans and 85 percent of VA single family fixed-rate loans. Ginnie Mae exceeded these goals in FY 2009 by 5 percentage points and 12 percentage points, respectively.

Although loans underlying its securities are concentrated in specific areas, Ginnie Mae has provided homeownership opportunities in every U.S. state and territory. Figure 12 highlights the geographic distribution of single family properties securing Ginnie Mae securities as of September 30, 2009.

The recent surge in single family issuance, together with internal operational enhancements that improved Ginnie Mae's ability to identify targeted loans, also enabled the number of loans in TLI pools and the average dollar size of TLI pools to increase. In FY 2009, 25 percent of pools received TLI credit, exceeding HUD's performance goal that 20 percent of all Ginnie Mae single family pools issued are TLI pools.

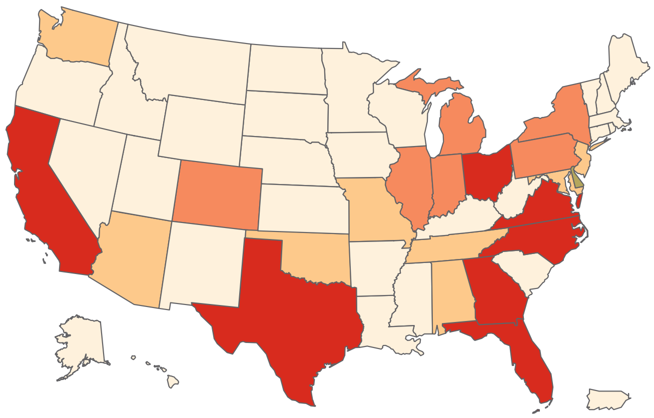
Multifamily Program

As of the end of FY 2009, Ginnie Mae guaranteed securities that contained 98 percent of eligible multifamily FHA loans. This result is a 3 percentage point increase over HUD's performance goal that at least 95 percent of eligible multifamily mortgages be placed into Ginnie Mae pools. In FY 2009, the Multifamily Program portfolio increased by $2.4 billion from $39.4 billion to $41.8 billion, marking 15 years of growth in Ginnie Mae's multifamily housing program.

Figure 13 shows the geographic distribution of multifamily properties securing Ginnie Mae securities as of September 30, 2009. Since 1971, Ginnie Mae has guaranteed $109.5 billion in multifamily MBS, helping to finance affordable and community-stabilizing multifamily housing developments across the nation.

In addition, Ginnie Mae's portfolio of Multifamily Rural Development loans grew significantly in FY 2009, with an outstanding principal balance above $216.9 million at fiscal year end. These loans are guaranteed through the U.S. Department of Agriculture's Rural Development Guaranteed Rural Rental Housing Program. The Multifamily Rural Development program became more diverse in FY 2009 than in previous years, as new issuers entered the program. There were Rural Development loans from 31 states in Ginnie Mae pools by the end of FY 2009.

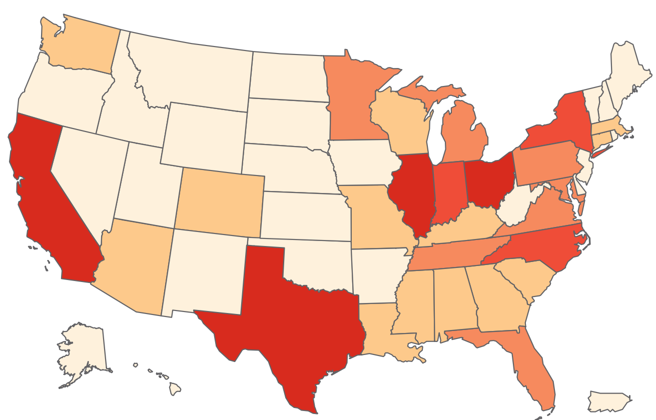
Figure 12: Geographic Distribution of Single Family Properties Securing Ginnie Mae Securities as of September 30, 2009



More than 200,000 Loans
150,000 – 200,000 Loans
100,000 – 149,000 Loans
Less than 100,000 Loans

State	Loans	Percent of Total SF Loans	RPB ($ Millions)
Texas	702,650	12.3%	$73,825
Florida	312,788	5.5%	$40,618
Georgia	288,907	5.0%	$37,432
California	278,881	4.9%	$59,639
Ohio	247,785	4.3%	$27,653
North Carolina	231,004	4.0%	$28,963
Virginia	201,077	3.5%	$35,776
Illinois	195,024	3.4%	$26,945
Pennsylvania	178,381	3.1%	$22,572
Indiana	174,842	3.1%	$18,194

Figure 13: Geographic Distribution of Multifamily Properties Securing Ginnie Mae Securities as of September 30, 2009



More than 400 Loans
300 – 399 Loans
200 – 299 Loans
100 – 199 Loans
Less than 100 Loans

State	Loans	Percent of Total MF Loans	RPB ($ Millions)
Ohio	659	8.0%	$2,172
Texas	571	6.9%	$3,821
California	569	6.9%	$2,957
Illinois	456	5.5%	$2,850
New York	394	4.8%	$2,743
Indiana	380	4.6%	$1,373
North Carolina	330	4.0%	$1,440
Michigan	285	3.4%	$1,284
Minnesota	272	3.3%	$1,429
Tennessee	235	2.8%	$862

HMBS and Manufactured Housing Programs

Continued investor interest in Ginnie Mae's reverse-mortgage HECM securities helped to grow the HECM/HMBS portfolio in FY 2009. The unpaid principal balance of HMBS climbed to $6.3 billion and the number of participations (the funded portions of HECM loans that have been securitized) increased to 62,871, with more than 42 percent of this participation volume occurring in the fourth quarter of FY 2009 alone. This has meant more liquidity, which translates into better execution and, ultimately, lower costs for the growing elderly population.

Activity increased in Ginnie Mae's manufactured housing program during FY 2009, with the portfolio of such loans increasing each quarter in FY 2009. The program currently has a moratorium on accepting new issuers; nevertheless, in FY 2009 the program grew to $227.4 million, up from $86 million at the end of the prior fiscal year.

"We have built a strong relationship with Ginnie Mae and its staff who have worked with us to maximize the opportunities and value of issuing MBS. This affords us a critical liquidity source in such a challenging market and enables us to continue to fulfill our mission of providing affordable financing for low- to moderate-income homebuyers. "

Mike King, Single Family Administrator
Alabama Housing Finance Authority

Portfolio Growth and Characteristics

Ginnie Mae has experienced portfolio growth—defined as the dollar amount of issuances guaranteed by Ginnie Mae—for 42 consecutive months. The current outstanding amount stands at $826.0 billion.

The portfolio growth has been driven heavily by the increase in FHA volume, including the surge in FHA refinancing activity as interest rates fell. In the third quarter of FY 2009 alone, more than 250,000 FHA refinance loans were securitized, representing more than one half of the new FHA loans in Ginnie Mae pools.

The effect of increased refinance activity and new issuances also has changed the character of Ginnie Mae's portfolio, shifting the overall age of its loans. At the end of FY 2008, only 28 percent of the loans in the aggregate portfolio were considered "young"—12 months or younger. At the end of FY 2009, this had increased to 37 percent.

Financial Models

Ginnie Mae's Policy and Financial Analysis Model (PFAM) allows Ginnie Mae to evaluate its financial condition in terms of cash flow, capital adequacy, and budget projections. The model does this by using an array of economic and financial scenarios modified by policy or programmatic decisions. PFAM incorporates Ginnie Mae's inherent operating risks with modeling that employs economic, financial, and policy variables to assess risks and overall performance.

In FY 2009, PFAM was used to estimate Ginnie Mae's credit subsidy rate based on historical loan performance data, economic measures, and program and policy assumptions. Every year, Ginnie Mae works with FHA, USDA, and VA to obtain loan-level data. The data supports detailed segmentation of loans according to key risk indicators, including loan type, loan size, loan-to-value ratio, and region. Changing economic conditions related to interest rates, housing values, population demographics, consumer prices, and income levels are accommodated by updating key economic drivers within PFAM's econometric functionality. Ginnie Mae's expertise in understanding and managing risks associated with its MBS guaranty business are accommodated by adjusting management assumption drivers within the model.

Cash flows for income and expenses associated with Ginnie Mae's MBS guaranty business were estimated by simulating loan-level performance for the existing book of business and forecasted new business. The simulated loan-level performance was used to forecast the effects on defaulted portfolios managed

by Ginnie Mae and levels of new issuer defaults. The model's cash flow output was used to estimate the net present value of Ginnie Mae's future cash flows from the outstanding guaranty portfolio at the end of FY 2009 and estimated new business for 30 years into the future.

Ginnie Mae updated this model with the most recent economic and financial data from Global Insight, a key industry source of economic and financial data. Among other things, this model is used to predict future default rates for single family and multifamily issuers.

PFAM is a stand-alone application residing on a single server that does not connect to any other system. All of the security measures, according to the U.S. Government security standard, are fully considered. As part of its efforts to comply with the security standard, Ginnie Mae has upgraded the Oracle database from 8i to 10g. The System Security Plan, Risk Assessment, Self Assessment, and Private Impact Assessment were implemented on the system and completed in mid-FY 2009.

Liquidity and Capital Adequacy

Ginnie Mae's primary sources of cash are MBS and multiclass guaranty fee income, commitment fee income, and interest income. After accounting for expenses and other factors, on September 30, 2009, Ginnie Mae reported $5.3 billion in funds with the U.S. Treasury, compared to $4.8 billion on September 30, 2008.

In addition to the funds with the U.S. Treasury, Ginnie Mae's investment in U.S. Government securities was $9.2 billion as of September 30, 2009. Of this amount, $1.8 billion was held in overnight certificates.

The balance of the portfolio's maturities is spread over time to ensure that Ginnie Mae has a ready source of funds to meet various liquidity needs. Emergency liquidity needs are met through short-term maturities.

Table 3 shows the fair value composition and maturity of Ginnie Mae's U.S. Treasury securities as of September 30, 2009, and as of that day in 2008.

Table 3: Composition of Treasury Securities as of September 30 (Percentage of Total)

Maturity	2009	2008
Due within 1 year	31%	33%
Due in 1–5 years	63%	54%
Due in 5–10 years	6%	13%

Figure 14 illustrates the components of Ginnie Mae's Investments in U.S. Government securities as of September 30, 2009.

Ginnie Mae's MBS guaranty activities historically have operated at no cost to the U.S. Government. Ginnie Mae's net income continues to build its capital base. Management believes the corporation maintains adequate capital reserves to withstand downturns in the housing market that could cause issuer defaults to increase.

As of September 30, 2009, the investment of the U.S. Government was $14.0 billion after establishing reserves for losses on credit activities, compared with $13.5 billion as of September 30, 2008. To assess the strength of its capital position, Ginnie Mae uses a "stress test" methodology that measures the organization's ability to withstand severe economic conditions. Figure 15 shows Ginnie Mae's capital reserves (Investment of U.S. Government) as of September 30, 2009, for each of the past 5 years.

Figure 14: Components of Investment in United States Government Securities, September 30, 2009

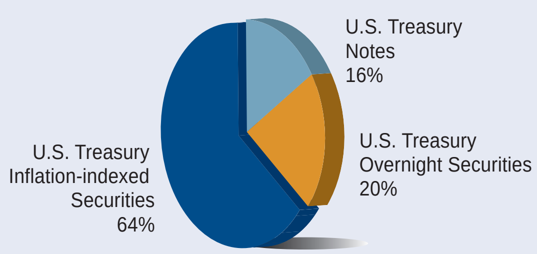
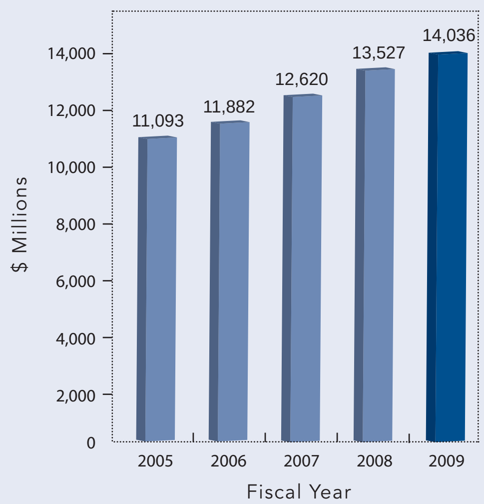


Figure 15: Capital Reserves (Investment of U.S. Government), Fiscal Years 2005 – 2009



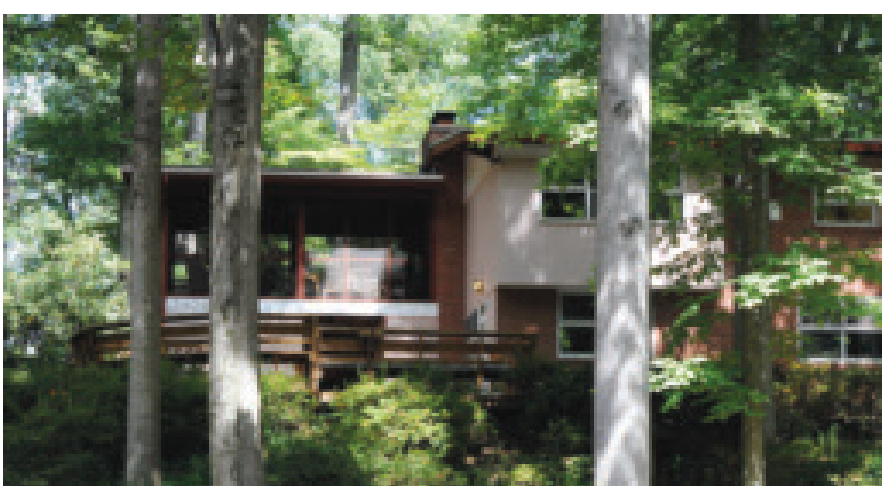
Risk Management and Systems of Internal Controls

Ginnie Mae continues to enhance its automated systems and business processes to increase operational efficiency and reduce business risk. An Internal Controls Manager oversees internal controls for the organization, including contract compliance reviews, OMB Circular A-123, Appendix A review, and other internal control and risk management activities.

Ginnie Mae continued to conduct periodic reviews of all master subservicers and major contractors to ensure compliance with the terms and conditions of their contracts. In addition, the audits and reviews enable Ginnie Mae to strengthen its internal controls and minimize risks. Furthermore, Ginnie Mae actively monitors its issuers to minimize fraud and default risk, which would negatively impact financial and operating results.

Ginnie Mae's management is responsible for establishing and maintaining effective internal controls and financial management systems that meet the objectives of the Federal Manager's Financial Integrity Act (FMFIA). Ginnie Mae can provide reasonable assurance that its internal controls and financial management systems meet FMFIA objectives.

Ginnie Mae assessed the effectiveness of its internal controls over financial reporting, which includes the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations, in accordance with the requirements of OMB Circular A-123, Appendix A. Safeguarding assets is a subset of all of these objectives. Internal controls should be designed to provide reasonable assurance regarding prevention or prompt detection of unauthorized acquisition, use, or disposition of assets. No material weaknesses were found in the design or operation of the internal controls over financial reporting. Based on these results, Ginnie Mae can provide reasonable assurance that its internal controls over financial reporting were operating effectively as of June 30, 2009.

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